

Message Text

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TAGS: EIND ECON IT
SUBJECT: ENI: THE PROBLEMS OF STATE CORPORATISM IN ITALY

1. SUMMARY. ITALY'S DECAYING PYRAMIDS. THAT'S WHAT CRITICS ARE NOW CALLING ITALY'S STATE-OWNED INDUSTRIES, ALWAYS A CATCHALL FOR FAILING PRIVATE FIRMS OR INSTRUMENTS FOR NATINAL POLICY WHATEVER THE COST. TO FIND OUT WHY, WE HAVE SPENT SEVERAL WEEKS TALKING TO LOCAL MANAGERS AND ECONOMISTS ABOUT MILAN-BASED ENERGY CONGLOMERATE ENI, STATE-OWNED GROUP WHICH IS ALSO ITALY'S LARGEST COMPANY. COMMON VIEW WAS THAT ENI IS COUNTRY'S BEST RUN STATE ENTERPRISE BUT THAT IT SUFFERS FROM SAME PROBLEMS FOUND EVERYWHERE IN STATE SECTOR: BIG LOSSES, HEAVY INDEBTEDNESS, CHRONIC LABOR PROBLEMS, AND UNNECESSARY POLITICAL INTERFERENCE. DESPITE AGREEMENT ON DIAGNOSIS, NO ONE FORESAW MAJOR CHANGES IN WAY STATE INDUSTRIES WERE ORGANIZED AND RUN. END SUMMARY.

2. THE PROBLEMS WHICH HAVE AFFLICTED ITLAYS MIXED
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MARKET ECONOMY SINCE THE EARLY 1970'S--EXUBERANT INFLATION, HIGH UNEMPLOYMENT, SLUGGISH GROWTH--HAVE SOWN GOOD DEAL OF SKEPTICISM ABOUT SYSTEMS VIABILITY. IN RECENT MONTHS, HOWEVER, BRUNT OF PUBLIC CRITICISM HAS FALLEN NOT ON FREE ENTERPRISE SYSTEM OR CAPTIALISTS WHO RUN IT, BUT RATHER ON STATES VAST EMPIRE OF PUBLICLY OWNED INDUSTRIES AND PARTY APPOINTEES WHO

MANAGE THEM. POORLY RUN, HEAVILY INDEBTED, LABOR DOMINATED, AND GROSSLY INEFFICIENT, ACCORDING TO CRITICS, STATE ENTERPRISES ARE NOW GIVEN LARGE SHARE OF BLAME FOR DERAILMENT OF ITALIAN MIRACLE.

3. TO FIND HOW MILANESE VIEW PUBLIC SECTOR WE HAVE SPENT SEVERAL MONTHS TALKING TO BUSINESSMEN, STATE INDUSTRY MANAGERS, AND OTHER EXPERTS ABOUT PROBLEMS OF STATE INDUSTRY.

4. WE TOOK ESPECIALLY CLOSE LOOK AT STATE-OWNED ENERGY CONGLOMERATE ENI (ENTE NAZIONALE IDROCARBURI), MOST OF WHOSE 170 COMPANIES ARE RUN FROM ITS SUBURBAN MILAN HEADQUARTERS. ITALY'S LARGEST ENTERPRISE BAR NONE IN TERMS OF SALES, ENI OCCUPIES SIXTH SPOT ON FORTUNE'S LIST OF WORLD'S BIGGEST NON-US COMPANIES. ACCORDING TO MANY PRIVATE BUSINESSMEN, IT IS ALSO ITALY'S BEST RUN STATE INDUSTRY. FORMED IN 1953 BY POWERFUL STATE INDUSTRIALIST AND DC ANGEL ENRICO MATTEI, ENI HAS EXPANDED IN ITS ROLE AS STATE PETROLEUM COMPANY UNTIL TODAY ITS SUBCOMPANIES - INCLUDING AGIP (OIL EXPLORATION AND MARKETING), SNAM (PETROLEUM TRANSPORT AND NATURAL GAS DISTRIBUTION), SNAM-PROGETTI (ENGINEERING), ANIC (CHEMICALS AND PETROCHEMICALS), AGIP NUCLEARE (NUCLEAR MATERIALS), AND SAIPEM (OIL PIPELINES AND DRILLING) - CONTROL DOMESTIC PETROLEUM MARKET AND ARE LIMITED OFFICIAL USE

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WELL KNOWN TO INTERNATIONAL COMPETITORS. ENI'S WORKFORCE GREW FROM 16,000 IN 1954 TO 100,000 TWENTY YEARS LATER. ALTHOUGH GROUP'S CONSOLIDATED LOSS IN 1976 WAS A NOT INCONSIDERABLE THIRTY FIVE MILLION DOLLARS ON TURNOVER OF ABOUT 11.3 BILLION, ENI MANAGERS THEMSELVES SAY GROUP DOING RELATIVELY WELL. LOSS WAS SMALLER THAN 1975'S 175 MILLION AND MODEST INDEED COMPARED TO SOME STATE ENTERPRISES LIKE BAGNOLI STEEL MILLS WHICH LOST NEARLY 15,000 DOLLARS PER WORKER IN 1975. MOST OF GROUP'S LOSSES COME FROM OPERATIONS IN MAN-MADE FIBERS, AREA THAT IS IN TROUBLE EVERYWHERE.

5. ENI'S PROBLEMS ARE SAME FOUND THROUGHOUT STATE SECTOR, EVEN THOUGH THEY ARE RELATIVELY LESS GRAVE. HUGE DEBTS, HIGH LABOR COSTS, WEAK MANAGEMENT, AND CONFLICTING CORPORATE GOALS ALL MAKE TURNING PROFIT INCREASINGLY DIFFICULT TASK.

6. HEAVY INDEBTEDNESS-COMMON CONDITION THROUGHOUT ITALIAN INDUSTRY--IS ONE OF BIGGEST MILLSTONES, ENI MANAGERS TOLD US. ENI CURRENTLY PAYS INTEREST ON NEARLY SIX BILLION DOLLARS OF LOANS. WITH PRESENT

INTEREST RATES BETWEEN 15 AND 20 PERCENT, FINANCING REPRESENTS TREMENDOUS OUTFLOW. DEBT BURDEN IS SUBSTANTIALLY HEAVIER FOR PUBLIC COMPANIES THAN FOR PRIVATE FIRMS. WHEREAS PRIVATE INDUSTRY HAS \$1.80 OF DEBT FOR EVERY DOLLAR OF CAPITAL, ACCORDING TO PRESS REPORT, COMPARABLE FIGURE FOR STATE INDUSTRY IS \$3.20. NEARLY TEN PERCENT OF PUBLIC INDUSTRIES SALES RECEIPTS GO TOWARD FINANCING THESE DEBTS COMPARED TO FIVE PERCENT IN PRIVATE INDUSTRY.

7. MANAGERS OF ENI COMPANIES ALSO COMPLAIN THAT LABOR COSTS ARE HIGHER FOR THEM THAN FOR PRIVATE COMPANIES, MAKING IT HARDER TO COMPETE AND OPERATE IN BLACK. UNIONS ARE MORE DEMANDING AND LESS FLEXIBLE. AND THERE LIMITED OFFICIAL USE

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IS TRAMENDOUS POLITICAL PRESSURE TO AVOID CLOSING PLANTS OR LAYING OFF WORKERS. "IF ITS DIFFICULT FOR PRIVATE FIRMS TO LAY OFF WORKERS, ITS IMPOSSIBLE FOR US," SAID ONE MANAGER. JOURNALIST ILLUSTRATED SITUATION WITH STATISTIC THAT PRIVATE COMPANIES IN ITALY HAD FIVE TIMES AS MUCH TIED UP IN CAPITAL AS STATE INDUSTRIES, BUT ONLY TWICE NUMBER OF WORKERS. PRIVATE ENTERPRISE WAS THUS SUBSTANTIALLY LESS LABOR INTENSIVE. AND WORKERS ARE MORE EXPENSIVE FOR PUBLIC COMPANIES, TOO. AVERAGE UNIT COST PER WORKER IN 1976 WAS 10,700 DOLLAR IN PUBLIC ENTERPRISE AND 9,600 DOLLARS IN PRIVATE.

8. BUT THORNIEST PROBLEM OF ALL CONFRONTING ENI IS SAID TO BE POLITICAL INTERFERENCE IN NORMAL BUSINESS ACTIVITIES. THIS BEGINS WITH APPOINTMENTS OF MANAGERS THEMSELVES, MOST OF WHOM GET JOBS THROUGH VAST SYSTEM OF PARTY PATRONAGE. ENI MANAGERS OWE THEIR JOBS TO PARTIES IN POWER, WHICH OFTEN APPEAR MORE CONCERNED WITH MAN'S LOYALTY THAN WITH HIS BUSINESS CREDENTIALS.

9. WHETHER PARTIES IN POWER WILLING TO CHANGE WASY IS UNCLEAR. MATTER CAME UP LAST JULY WHEN AGIP PRESIDENT EGIDIO EGIDI RESIGNED AFTER PUBLICLY PROTESTING POLITICAL INTERFERENCE IN HIS OPERATIONS. HEAD OF ENI'S TEXTILE OPERATIONS AND SEVERAL OTHER TOP ENI MANAGERS FOLLOWED HIM IN RESIGNING. SENTIMENT WAS HIGH AMONG ENI MANAGERS THAT CAREER PEOPLE BE NAMED TO FULL VACANCIES. AND GOVERNMENT SURPRISED MANY BY DOING JUST THAT. THIS APPARENT DEPARTURE FROM PAST PRACTICE, AS WELL AS GOVERNMENTS REFUSAL SO FAR TO PREVENT LIQUIDATION OF TWO STATE COMPANIES NOW IN CRISIS, HAVE LED MANY TO BELIEVE THAT BASIC CHANGE IN GOVERNMENTS ATTITUDE TOWARD PUBLIC ENTERPRISE IS UNDERWAY.

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10. OTHERS, HOWEVER, ARE MORE PESSIMISTIC. THEY DOUBT THAT DC YET READY TO JUNK PATRONAGE SYSTEM WHICH HAS SERVED THEM SO WELL. EVEN HEAD OF MILAN PUBLICLY-OWNED ELECTRICAL EQUIPMENT MANUFACTURER, PRESUMABLY HIMSELF POLITICAL APPOINTEE, TOLD US UNREPENTANT DC CARVING UP PUBLIC ENTERPRISE COMPANIES AS THOUGH TALK OF REFORM HAD NEVER TAKEN PLACE.

11. SECOND MAJOR WAY THAT INFLUENCES ENI AS PUBLICLY-OWNED ENTERPRISE LIES IN GROUP'S ATTITUDE TOWARD PROFITABILITY. PROFIT MAXIMIZATION IS NOT OVERARCHING GOAL THAT IT USUALLY IS FOR PRIVATE COMPANIES. ALTHOUGH STATE INDUSTRIES ARE LEGALLY REQUIRED TO TURN A PROFIT AND TOP STATE MANAGERS ARE FOND OF TELLING AMERICAN AND OTHER VISITORS THAT THEIR GOAL IS TO MAKE AS MUCH MONEY FOR INVESTORS AS DOES PRIVATE SECTOR, FACT IS THAT SOCIAL CONSIDERATIONS OFTEN PREDOMINATE IN BUSINESS DECISIONS. AGIP PRESIDENT WENT SO FAR AS TO TELL US THAT "PROFITABILITY" TO WHICH PUBLIC COMPANIES COMMITTED, MEANT ONLY THAT THEY SHOULD ATTAIN

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SMALL PROFIT MARGIN OR, IN SOME CASES, JUST BREAK EVEN. SOCIAL OBLIGATIONS TO PROVIDE JOBS, MAKE INVESTMENT IN DEPRESSED AREAS, AND KEEP STRATEGIC INDUSTRIES IN OPERATION WERE ALSO IMPORTANT GOALS.

12. UNFORTUNATELY ECONOMIC AND SOCIAL CORPORATE GOALS ARE NOT ALWAYS COMPATIBLE. KEEPING WORKERS ON JOB HAS OFTEN MEANT KEEPING HIGHLY UNPROFITABLE PLANTS IN OPERATION. FOR EXAMPLE, ONE LARGE STATE-OWNED COMPANY ON VERGE OF FALLING INTO HANDS OF LIQUIDATORS, WAS RECENTLY DROPPED INTO LAPS OF ENI AND IRI INSTEAD. SOLVING COMPANY'S PROBLEMS WOULD HAVE MEANT CLOSING SOME OPERATIONS AND LAYING OFF WORKERS. RATHER THAN DOING THIS, PROBLEMS WERE NOT RESOLVED, ONLY REDISTRIBUTED. AND THIS IS OLD TRADITION. ENI'S FIRST FINANCIAL PROBLEMS, IN FACT, OCCURRED IN 1970 WHEN IT WAS FORCED TO PICK UP LARGE, AILING TEXTILE GROUP NOW HEADED BY TESCON. TEXTILES HAD NOTHING IN COMMON WITH GROUP'S OTHER OPERATIONS, AND TESCON STILL REMAINS ONE OF ENI'S BIGGEST MONEY LOSERS.

13. WHAT'S THE ANSWER? MANY THINK ENI, AS WELL AS OTHER STATE COMPANIES, CAN IMPROVE THEIR PROFIT/LOSS POSITION WITHOUT COMPROMISING EMPLOYMENT AND OTHER SOCIAL ISSUES BY INCREASING EXPORT SALES, PROSPECTS FOR THIS ARE FACILITATED BY GOVERNMENTS INDIRECT SUBSIDIES FOR INVESTMENT AND REBUILDING SPENT CAPITAL AS WELL AS BY EASIER ACCESS TO FINANCING USUALLY AVAILABLE TO STATE-BACKED COMPANIES. THESE HELP STATE ENTERPRISES GAIN PRICE ADVANTAGES ON WORLD MARKETS VIS-A-VIS THEIR PRIVATE COMPETITORS, A POSITION MANY OF THEM ARE TRYING TO EXPLOIT. ENI'S SNAM-PROGETTI AND SAIPEM HAVE IN FACT BEEN SUCCESSFUL IN HUSTLING FOREIGN BUYERS. OVER 90

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PERCENT OF THEIR SALES THESE DAYS ARE ABROAD. SNAM-PROGETTI FEW MONTHS BACK BEAT OUT LARGER AMERICAN COMPETITORS IN BID TO BUILD BIG REFINERY IN US. AND ENI HAS DEVELOPED DEEP WATER PIPELINE FOR TRANSPORTING NATURAL GAS FROM NORTHERN AFRICA TO ITALY WHICH IT HOPES TO SELL ALSO IN OTHER PARTS OF THE WORLD.

14. NEVERTHELESS ANY IMPROVEMENT EXPORTS AFFORD ONLY SERVES TO HIDE WEAKNESS IN ECONOMY THAT PRESENT TYPE OF

ITALIAN STATE PARTICIPATION, I.E., VIA NATIONALIZATION OF UNPROFITABLE COMPANIES - REPRESENTS. ENI, LIKE ALL ITALIAN STATE OWNED COMPANIES, MUST TRY TO SOLVE SOCIAL PROBLEMS AT SAME TIME IT IS STRIVING FOR EFFICIENCY AND PROFITABILITY. BUT IF GOVERNMENT'S PRIORITIES ARE TO MAINTAIN JOBS AT EXPENSE OF LABOR PRODUCTIVITY OR TO ENCOURAGE INVESTMENTS IN ITALY'S UNDERDEVELOPED SOUTH WITH LITTLE REGARD TO THEIR PROFITABILITY, THEN MECHANISM MUST EXIST TO TAKE PLACE OF PRIVATE INVESTORS AND CREDITORS WHEN THEY REFUSE ANY LONGER TO HOLD WEAK PARTS OF DYKE TOGETHER. AND THIS IS FUNCTION PUBLIC PARTICIPATION SERVES IN ITALIAN ECONOMY. COST IS HIGH, HOWEVER, AND INVOLVES PRESERVING INEFFICIENT AND UNPRODUCTIVE INDUSTRIES WHILE STIFLING ADOPTION OF LATEST TECHNOLOGIES. WITH STATE'S CORPORATE EMPIRE HAVING NOW EXPANDED TO COVER ONE THIRD OF ITALY'S ECONOMY, PRICE IS BEING PAID ON VAST SCALE.

15. EVEN THOUGH USING STATE SECTOR AS UMBRELLA FOR AILING COMPANIES IS EXPENSIVE IN TERMS OF WASTED RESOURCES AND INEFFICIENT PRODUCTION, FEW AT ENI OR ELSEWHERE IN PUBLIC SECTOR SEEM READY TO LOOK FOR ANY OTHER SOLUTION. EVEN CRITICS DO NOT ADVOCATE RETURNING STATE COMPANIES TO PRIVATE HANDS ON LARGE SCALE (ASSUMING ANY PRIVATE INVESTORS COULD BE FOUND TO BUY THEM.) INSTEAD NEARLY EVERYONE THINKS ANSWER MUST LIE IN PRESENT SYSTEM. "WE MUST CREATE NEW INDUSTRIES INTO WHICH WE CHANNEL WORKERS NOW EMPLOYED IN SICK ONES", SAID AGIP PRESIDENT. THAT LIMITED OFFICIAL USE

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IS A GOOD TRICK IF YOU CAN DO IT. BUT WITH DEMAND LOW, UNIONS ADAMANT AGAINST LAY-OFFS OR EVEN MOVING WORKERS FROM PLACE TO PLACE, AND POLITICAL PARTY CAREER AND FINANCIAL INTEREST RIGIDLY ANCHORED TO THE STATUS QUO, REAL PROGRESS IN STRENGTHENING THE STATE SECTOR LOOKS TO BE A LONG WAY OFF.FINA

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